



# **Joe Morolong Local Municipality**

(Registration number NC 451)  
AUDITED ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Nature of business and principal activities

Joe Morolong Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)

### Municipal Council Members

Mayor

Cllr. M.D. Moremi

Speaker

Chief Whip

Executive Members

### Party Representatives

Cllr. J. Freedman

Cllr. M.T. Tihelo

Cllr. T.P. Tshipo (Deceased)

Cllr. K. Ditshetelo

Cllr. S. Segano

Cllr. B. Matlhomantsho

Cllr. V. Jordan

### Ward Councillors

Cllr. N. Mokweni

Ward 1

Cllr. O. Kaotsane

Ward 2

Cllr. S. Ortel

Ward 3

Cllr. K. Shuping

Ward 4

Cllr. S. Matshidiso

Ward 5

Cllr. G Sephekolo

Ward 6

Cllr. K. Modise

Ward 7

Cllr. E. Molawa

Ward 8

Cllr. G. Moriri

Ward 9

Cllr. D. Kubang

Ward 10

Cllr. P. Segatsho

Ward 11

Cllr. S. Moagi

Ward 12

Cllr. H. Kgopodithata

Ward 13

Cllr. D. Josop

Ward 14

Cllr. K. Teteme

Ward 15

Mayor

Council Committees

1. Finance, Human Resources and Administration

Chairperson

Cllr. K.J. Mosiapoe

Committee Members

Cllr. V. Jordan

Cllr. K. Shuping

Cllr. G. Moriri

Cllr. N. Mokweni

Cllr. T. Teteme

Cllr. O. Kaotsane

2. IDP, Planning and Development

Chairperson

Cllr. E.O. Leshope

Committee Members

Cllr. M.E. Molawa

# Joe Morolong Local Municipality

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## General Information

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	Cllr. S.P. Segaletsho Cllr. T.M. Mokgoje Cllr. J. Segano Cllr. K. Ditshetelo Cllr. B. Matlhomantsho
3. Infrastructure	
Chairperson	Cllr. B.M. Mbolekwa
Committee Members	Cllr. D.S. Josop Cllr. M.C. Tihelo Cllr. T.P. Tshipo (Deceased) Cllr. K.J. Modise Cllr. O. Kgopodithata
4. Community Service	
Chairperson	Cllr. N. Selebalo
Committee Members	Cllr. J. Freedman Cllr. S.J. Matshidiso Cllr. S. Ortel Cllr. D.C. Kubang Cllr. M.G. Sephekolo
<b>Chief Financial Officer (CFO)</b>	Mrs. B.D. Motlhaping
<b>Business address</b>	D320 Cardington Road Churchill Village 8474
<b>Postal address</b>	Private Bag X 117 Mothibistad 8474
<b>Bankers</b>	Standard Bank Limited Absa Bank Limited First National Bank
<b>Auditors</b>	Auditor General of South Africa

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The reports and statements set out below comprise the audited annual financial statements presented to the provincial legislature:

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# Joe Morolong Local Municipality

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSOG	Water Services Operating Subsidy Grant

### Relevant Legislation

Municipal Finance Management Act	(Act no 56 of 2003)
Division of Revenue Act	
The Income Tax Act	
Value Added Tax Act	
Municipal Structures Act	(Act no 117 of 1998)
Municipal Systems Act	(Act no 32 of 2000)
Municipal Planning and Performance Management Regulations	
Water Services Act	(Act no 108 of 1997)
Housing Act	(Act no 107 of 1997)
Municipal Property Rates Act	(Act no 6 of 2004)
Electricity Act	(Act no 41 of 1987)
Skills Development Levies Act	(Act no 9 of 1999)
Employment Equity Act	(Act no 55 of 1998)
Unemployment Insurance Act	(Act no 30 of 1966)
Basic Conditions of Employment Act	(Act no 75 of 1997)

# Joe Morolong Local Municipality

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SALGBC - Salary and Wage  
Collective Agreement

Infrastructure Grants

SALBC Leave Regulations

Labour Relations Act

## **Joe Morolong Local Municipality**

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements.

The audited annual financial statements set out on pages 7 to 59, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

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**Mr. T.M. Bloom**  
**Accounting Officer**

**Joe Morolong Local Municipality**

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	1 577 652	1 797 983
Receivables from non-exchange transactions	4	12 615 720	20 955 594
VAT receivable	5	4 290 274	3 586 880
Receivables from exchange transactions	6	4 160 780	38 420 903
Cash and cash equivalents	7	21 570 148	691 588
		<b>44 214 574</b>	<b>65 452 948</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	1 688 867 112	1 619 283 039
Intangible assets	9	474 321	474 321
		<b>1 689 341 433</b>	<b>1 619 757 360</b>
<b>Total Assets</b>		<b>1 733 556 007</b>	<b>1 685 210 308</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	11	784 454	784 507
Finance lease obligation	52	23 803 757	-
Payables from exchange transactions	12	47 027 821	38 803 300
Employee benefit obligation	50	116 388	118 907
Unspent conditional grants and receipts	10	1 133 530	-
Retention fees	53	12 906 171	1 348 193
Bank overdraft	7	3 692 747	16 122 827
		<b>89 464 868</b>	<b>57 177 734</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	11	1 153 229	1 802 600
Finance lease obligation	52	13 866 194	-
Employee benefit obligation	50	1 273 325	1 046 904
Provisions	14	3 518 969	1 565 000
		<b>19 811 717</b>	<b>4 414 504</b>
<b>Total Liabilities</b>		<b>109 276 585</b>	<b>61 592 238</b>
<b>Net Assets</b>		<b>1 624 279 422</b>	<b>1 623 618 070</b>
Accumulated surplus		1 624 279 422	1 623 618 070

\* See Note 41



# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	30 944 892	20 550 869
Interest charged on arrear consumer accounts		7 337 104	4 583 384
Other income	16	2 451 258	825 372
Interest received - investment	15	2 706 138	1 155 435
<b>Total revenue from exchange transactions</b>		<b>43 439 392</b>	<b>27 115 060</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	19	10 418 008	10 426 038
Sundry revenue		366 993	1 708 460
<b>Transfer revenue</b>			
Government grants & subsidies	20	290 922 486	256 511 323
Public contributions and donations	21	-	4 977 620
<b>Total revenue from non-exchange transactions</b>		<b>301 707 487</b>	<b>273 623 441</b>
<b>Total revenue</b>	22	<b>345 146 879</b>	<b>300 738 501</b>
<b>Expenditure</b>			
Employee related costs	30	56 713 707	47 446 687
Remuneration of councillors	31	7 817 698	8 531 355
Depreciation and amortisation	26	57 117 989	26 490 835
Finance costs	27	3 663 842	202 490
Debt Impairment	25	79 248 917	(59 839 362)
Repairs and maintenance		30 615 122	9 252 042
Bulk purchases	23	10 095 492	11 103 962
Contracted services	24	-	465 600
Transfers and Subsidies	29	55 406 640	18 379 122
General Expenses	28	43 806 125	39 204 895
<b>Total expenditure</b>		<b>344 485 532</b>	<b>101 237 626</b>
<b>Operating surplus</b>		<b>661 347</b>	<b>199 500 875</b>
<b>Surplus for the year</b>		<b>661 347</b>	<b>199 500 875</b>

\* See Note 41

# Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 443 574 269	1 443 574 269
Adjustments		
Prior year adjustments	(19 457 074)	(19 457 074)
<b>Balance at 01 July 2014 as restated*</b>	<b>1 424 117 195</b>	<b>1 424 117 195</b>
Changes in net assets		
Surplus for the year	199 500 875	199 500 875
Total changes	199 500 875	199 500 875
Opening balance as previously reported	1 232 604 301	1 232 604 301
Adjustments		
Prior period error - Note 41	391 013 774	391 013 774
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>1 623 618 075</b>	<b>1 623 618 075</b>
Changes in net assets		
Surplus for the year	661 347	661 347
Total changes	661 347	661 347
<b>Balance at 30 June 2016</b>	<b>1 624 279 422</b>	<b>1 624 279 422</b>
Note(s)		

\* See Note 41

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		14 869 337	68 756 052
Grants		236 649 376	238 132 201
Interest income		2 706 138	1 155 435
		<u>254 224 851</u>	<u>308 043 688</u>
<b>Payments</b>			
Employee costs		(63 258 080)	(54 812 231)
Suppliers		(75 870 733)	(52 798 668)
Finance costs		(3 663 842)	(202 490)
		<u>(142 792 655)</u>	<u>(107 813 389)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>111 432 196</u></b>	<b><u>200 230 299</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(127 184 255)	(181 525 951)
Proceeds from sale of property, plant and equipment	8	482 194	229 717
Purchase of intangible assets	9	-	(245 774)
<b>Net cash flows from investing activities</b>		<b><u>(126 702 061)</u></b>	<b><u>(181 542 008)</u></b>
<b>Cash flows from financing activities</b>			
Proceeds /(repayment) of other financial liabilities		(649 424)	(638 182)
Movement in retention fees		11 557 978	-
Repayment of shareholders loan		-	19 824 408
Finance lease payments		37 669 951	-
<b>Net cash flows from financing activities</b>		<b><u>48 578 505</u></b>	<b><u>(638 182)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>33 308 640</u></b>	<b><u>(215 348)</u></b>
Cash and cash equivalents at the beginning of the year		(15 431 239)	(15 215 891)
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>17 877 401</u></b>	<b><u>(15 431 239)</u></b>

\* See Note 41

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	15 912 000	(1 867 000)	<b>14 045 000</b>	30 944 892	<b>16 899 892</b>	51
Rental of facilities and equipment	97 000	(18 000)	<b>79 000</b>	-	<b>(79 000)</b>	
Interest received (trading)	50 000	(25 000)	<b>25 000</b>	7 337 104	<b>7 312 104</b>	51
Agency services	109 000	(55 000)	<b>54 000</b>	-	<b>(54 000)</b>	
Transfers recognised	147 129 000	8 316 000	<b>155 445 000</b>	-	<b>(155 445 000)</b>	51
Other income - (rollup)	582 000	8 729 000	<b>9 311 000</b>	2 451 258	<b>(6 859 742)</b>	51
Interest received - investment	-	364 000	<b>364 000</b>	2 706 138	<b>2 342 138</b>	51
<b>Total revenue from exchange transactions</b>	<b>163 879 000</b>	<b>15 444 000</b>	<b>179 323 000</b>	<b>43 439 392</b>	<b>(135 883 608)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	10 489 000	6 398 000	<b>16 887 000</b>	10 418 008	<b>(6 468 992)</b>	51
Other taxation revenue 1	-	-	-	366 993	<b>366 993</b>	

##### Transfer revenue

Government grants & subsidies	-	-	-	290 922 486	<b>290 922 486</b>	51
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<b>Total revenue from non-exchange transactions</b>	<b>10 489 000</b>	<b>6 398 000</b>	<b>16 887 000</b>	<b>301 707 487</b>	<b>284 820 487</b>	
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<b>Total revenue</b>	<b>174 368 000</b>	<b>21 842 000</b>	<b>196 210 000</b>	<b>345 146 879</b>	<b>148 936 879</b>	
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#### Expenditure

Employee costs	(49 199 000)	(2 506 000)	<b>(51 705 000)</b>	(56 713 707)	<b>(5 008 707)</b>	51
Remuneration of councillors	(8 538 000)	(1 175 000)	<b>(9 713 000)</b>	(7 817 698)	<b>1 895 302</b>	51
Depreciation and asset impairment	(10 000 000)	-	<b>(10 000 000)</b>	(57 117 989)	<b>(47 117 989)</b>	51
Finance costs	(934 000)	-	<b>(934 000)</b>	-	<b>934 000</b>	51
Bad debts written off	-	-	-	(79 248 917)	<b>(79 248 917)</b>	
Repairs and maintenance	-	-	-	(30 615 122)	<b>(30 615 122)</b>	51
Bulk purchases	(10 847 000)	1 173 000	<b>(9 674 000)</b>	(10 095 492)	<b>(421 492)</b>	51
Contracted Services	(20 398 000)	1 698 000	<b>(18 700 000)</b>	-	<b>18 700 000</b>	51
Transfers and Subsidies	(4 730 000)	(197 000)	<b>(4 927 000)</b>	(55 406 640)	<b>(50 479 640)</b>	51
General Expenses	-	-	-	(47 469 967)	<b>(47 469 967)</b>	51
Debt Impairment	(3 960 000)	-	<b>(3 960 000)</b>	-	<b>3 960 000</b>	51
Other expenditure	(55 048 000)	(18 334 000)	<b>(73 382 000)</b>	-	<b>73 382 000</b>	51

<b>Total expenditure</b>	<b>(163 654 000)</b>	<b>(19 341 000)</b>	<b>(182 995 000)</b>	<b>(344 485 532)</b>	<b>(161 490 532)</b>	
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<b>Surplus before taxation</b>	<b>10 714 000</b>	<b>2 501 000</b>	<b>13 215 000</b>	<b>661 347</b>	<b>(12 553 653)</b>	
Capital transfers and contributions	(115 669 000)	(17 082 000)	<b>(132 751 000)</b>	-	<b>132 751 000</b>	51

## Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>126 383 000</b>	<b>19 583 000</b>	<b>145 966 000</b>	<b>661 347</b>	<b>(145 304 653)</b>	

# Joe Morolong Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	1 575 000	-	1 575 000	1 577 652	2 652	51
Receivables from non-exchange transactions	-	-	-	6 220 617	6 220 617	51
VAT receivable	-	-	-	4 290 274	4 290 274	51
Consumer debtors	4 916 000	-	4 916 000	4 160 780	(755 220)	51
Call investment deposits	257 000	-	257 000	-	(257 000)	51
Cash and cash equivalents	13 173 000	-	13 173 000	21 570 148	8 397 148	51
	<b>19 921 000</b>	<b>-</b>	<b>19 921 000</b>	<b>37 819 471</b>	<b>17 898 471</b>	

##### Non-Current Assets

Property, plant and equipment	1 261 992 000	138 765 000	1 400 757 000	1 688 867 112	288 110 112	51
Intangible assets	420 000	-	420 000	474 321	54 321	
	<b>1 262 412 000</b>	<b>138 765 000</b>	<b>1 401 177 000</b>	<b>1 689 341 433</b>	<b>288 164 433</b>	

##### Total Assets

<b>1 282 333 000</b>	<b>138 765 000</b>	<b>1 421 098 000</b>	<b>1 727 160 904</b>	<b>306 062 904</b>	
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#### Liabilities

##### Current Liabilities

Other financial liabilities	-	-	-	784 454	784 454	51
Finance lease obligation	-	-	-	23 803 757	23 803 757	
Payables from exchange transactions	13 214 000	-	13 214 000	47 027 823	33 813 823	51
Employee benefit obligation	-	-	-	116 388	116 388	
Unspent conditional grants and receipts	-	-	-	1 133 530	1 133 530	
Provisions	677 000	-	677 000	-	(677 000)	51
Retention fees	784 000	-	784 000	12 906 171	12 122 171	
Bank overdraft	-	-	-	3 692 747	3 692 747	
	<b>14 675 000</b>	<b>-</b>	<b>14 675 000</b>	<b>89 464 870</b>	<b>74 789 870</b>	

##### Non-Current Liabilities

Other financial liabilities	-	-	-	1 153 229	1 153 229	
Finance lease obligation	-	-	-	13 866 194	13 866 194	
Employee benefit obligation	-	-	-	1 273 325	1 273 325	
Provisions	1 629 000	-	1 629 000	3 518 965	1 889 965	
Retention fees	2 516 000	-	2 516 000	-	(2 516 000)	
	<b>4 145 000</b>	<b>-</b>	<b>4 145 000</b>	<b>19 811 713</b>	<b>15 666 713</b>	

##### Total Liabilities

<b>18 820 000</b>	<b>-</b>	<b>18 820 000</b>	<b>109 276 583</b>	<b>90 456 583</b>	
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##### Net Assets

<b>1 263 513 000</b>	<b>138 765 000</b>	<b>1 402 278 000</b>	<b>1 617 884 321</b>	<b>215 606 321</b>	
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## Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1 263 513 000	138 765 000	<b>1 402 278 000</b>	1 617 884 321	<b>215 606 321</b>	

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Sale of goods and services	22 442 000	(2 316 000)	20 126 000	-	(20 126 000)	
Grants	262 798 000	25 398 000	288 196 000	-	(288 196 000)	
Interest income	40 000	324 000	364 000	-	(364 000)	
Other receipts	714 000	8 657 000	9 371 000	-	(9 371 000)	
	<b>285 994 000</b>	<b>32 063 000</b>	<b>318 057 000</b>	-	<b>(318 057 000)</b>	

##### Payments

Suppliers and employees	(143 873 000)	(25 906 000)	(169 779 000)	-	169 779 000	
Transfers and grants	(4 730 000)	-	(4 730 000)	-	4 730 000	
Finance costs	(149 000)	(28 000)	(177 000)	-	177 000	
	<b>(148 752 000)</b>	<b>(25 934 000)</b>	<b>(174 686 000)</b>	-	<b>174 686 000</b>	

<b>Net cash flows from operating activities</b>	<b>137 242 000</b>	<b>6 129 000</b>	<b>143 371 000</b>	-	<b>(143 371 000)</b>	
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#### Cash flows from investing activities

Purchase of property, plant and equipment	(126 383 000)	(12 516 000)	(138 899 000)	-	138 899 000	
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#### Cash flows from financing activities

Movement in retention fees	(784 000)	-	(784 000)	-	784 000	
Net increase/(decrease) in cash and cash equivalents	10 075 000	(6 387 000)	3 688 000	-	(3 688 000)	
Cash and cash equivalents at the beginning of the year	3 099 000	-	3 099 000	-	(3 099 000)	
<b>Cash and cash equivalents at the end of the year</b>	<b>13 174 000</b>	<b>(6 387 000)</b>	<b>6 787 000</b>	-	<b>(6 787 000)</b>	



# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	10 489 000	6 398 000	16 887 000	-		16 887 000	10 418 008		(6 468 992)	62 %	99 %
Service charges	15 912 000	(1 867 000)	14 045 000	-		14 045 000	30 944 892		16 899 892	220 %	194 %
Investment revenue	-	364 000	364 000	-		364 000	2 706 138		2 342 138	743 %	DIV/0 %
Transfers recognised - operational	147 129 000	8 316 000	155 445 000	-		155 445 000	118 229 470		(37 215 530)	76 %	80 %
Other own revenue	838 000	8 631 000	9 469 000	-		9 469 000	10 155 355		686 355	107 %	1 212 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>174 368 000</b>	<b>21 842 000</b>	<b>196 210 000</b>	<b>-</b>		<b>196 210 000</b>	<b>172 453 863</b>		<b>(23 756 137)</b>	<b>88 %</b>	<b>99 %</b>
Employee costs	(49 199 000)	(2 506 000)	(51 705 000)	-	-	(51 705 000)	(56 713 707)	-	(5 008 707)	110 %	115 %
Remuneration of councillors	(8 538 000)	(1 175 000)	(9 713 000)	-	-	(9 713 000)	(7 817 698)	-	1 895 302	80 %	92 %
Debt impairment	(3 960 000)	-	(3 960 000)			(3 960 000)	(79 248 917)	-	(75 288 917)	2 001 %	2 001 %
Depreciation and asset impairment	(10 000 000)	-	(10 000 000)			(10 000 000)	(57 117 989)	-	(47 117 989)	571 %	571 %
Finance charges	(934 000)	-	(934 000)	-	-	(934 000)	(3 663 842)	-	(2 729 842)	392 %	392 %
Materials and bulk purchases	(31 245 000)	2 871 000	(28 374 000)	-	-	(28 374 000)	(10 095 492)	-	18 278 508	36 %	32 %
Transfers and grants	(4 730 000)	(197 000)	(4 927 000)	-	-	(4 927 000)	(55 406 640)	-	(50 479 640)	1 125 %	1 171 %
Other expenditure	(55 048 000)	(18 334 000)	(73 382 000)	-	-	(73 382 000)	(74 421 247)	-	(1 039 247)	101 %	135 %
<b>Total expenditure</b>	<b>(163 654 000)</b>	<b>(19 341 000)</b>	<b>(182 995 000)</b>	<b>-</b>	<b>-</b>	<b>(182 995 000)</b>	<b>(344 485 532)</b>	<b>-</b>	<b>(161 490 532)</b>	<b>188 %</b>	<b>210 %</b>
<b>Surplus/(Deficit)</b>	<b>10 714 000</b>	<b>2 501 000</b>	<b>13 215 000</b>	<b>-</b>		<b>13 215 000</b>	<b>(172 031 669)</b>		<b>(185 246 669)</b>	<b>(1 302)%</b>	<b>(1 606)%</b>

## Joe Morolong Local Municipality

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### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	115 669 000	17 082 000	132 751 000	-		132 751 000	172 693 016		39 942 016	130 %	149 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>126 383 000</b>	<b>19 583 000</b>	<b>145 966 000</b>	<b>-</b>		<b>145 966 000</b>	<b>661 347</b>		<b>(145 304 653)</b>	<b>- %</b>	<b>1 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>126 383 000</b>	<b>19 583 000</b>	<b>145 966 000</b>	<b>-</b>		<b>145 966 000</b>	<b>661 347</b>		<b>(145 304 653)</b>	<b>- %</b>	<b>1 %</b>

# Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Audited Annual Financial Statements

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

##### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates inflation interest, etc.

#### Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate of the obligation can be made.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the financial statements.

#### Landfill sites

The municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations.

The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

Provisions were raised and management determined an estimate based on the information available.

#### Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment and intangible assets when there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. In reassessing the useful lives and residual values of property, plant and equipment and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Long service awards

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for Northern Cape Division of SALGBC. A valuation of the municipality's liability relating to the long service awards was performed by actuaries.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, meets the definition of assets and the meets the recognition criteria, they are accounted for as separate items (major components) of property, plant and equipment.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequently all Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Improvements	25-30 years
• Buildings	25-30 years

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

#### Plant and machinery

- Specialized plant and equipment 10-15 years
- Other plants and equipment 2-15 years

#### Furniture and fixtures

- Office equipment 3-15 years
- Furniture and fittings 5-15 years

#### Motor vehicles

- Specialized vehicles 10-15 years
- Other vehicles 5-15 years

#### Infrastructure

- Roads and paving 10-100 years
- Pedestrian malls 15-30 years
- Electricity 15-60 years

#### Community

- Community facilities 25-30 years
- Recreational facilities 15-30 years

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

# Joe Morolong Local Municipality

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## Accounting Policies

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### 1.5 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.



# Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

##### Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

##### Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

##### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

#### Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

# Joe Morolong Local Municipality

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## Accounting Policies

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### 1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Subsequent Measurement

##### Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

##### Water Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

##### Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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## Accounting Policies

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### 1.9 Impairment of cash-generating assets (continued)

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

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### 1.11 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus and incentive payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

#### Prepaid water and electricity

Revenue from the sale of water and electricity prepaid meter cards are recognised at the point of sale.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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## Accounting Policies

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### 1.13 Revenue from exchange transactions (continued)

#### Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

### 1.14 Revenue from non-exchange transactions

#### 1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### 1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

#### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



# Joe Morolong Local Municipality

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## Accounting Policies

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### 1.20 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.21 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

### 1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.24 Government grants and receipts

Government grants and receipts are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.25 Value added tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

### Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

### Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

### Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

### Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

### Revenue from agency services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

### Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

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Audited Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 1.26 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

### 1.27 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are to be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

### 1.28 Change in accounting estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

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Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 17 effective 1 April 2016 Impact - Assessment of useful life

**Standard/ Interpretation:**

**Effective date:  
Years beginning on or  
after**

**Expected impact:**

The aggregate impact of the initial application of the statements and interpretations on the municipality's audited annual financial statements is expected to be as follows:

#### Income statement for the year 30 June 2017

The changes in the new standards and interpretations resulted in a decrease in basic earnings per share and diluted earnings per share as follows:

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Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>3. Inventories</b>		
Consumable stores	1 577 652	1 797 983
<b>Inventory pledged as security</b>		
No Inventory was pledged as security		
<b>4. Receivables from non-exchange transactions</b>		
Employee costs in advance	962 754	1 102 232
Prepaid expenses - fleet lease	4 965 071	-
Unallocated receipts	292 792	142 782
Rates - gross balance	47 392 117	37 650 586
Less: Allowance for rates impairment	(40 997 014)	(17 940 006)
	<b>12 615 720</b>	<b>20 955 594</b>
<b>5. VAT receivable</b>		
VAT	4 290 274	3 586 880
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	5 015 397	3 879 578
Water	40 725 383	21 720 574
Sewerage	24 386 474	22 590 719
Refuse	2 400 371	1 837 555
Service debtors	21 613 511	22 239 467
	<b>94 141 136</b>	<b>72 267 893</b>
<b>Less: Allowance for impairment</b>		
Electricity	(3 920 167)	(2 883 243)
Water	(38 218 281)	(19 347 838)
Sewerage	(22 837 200)	(2 432 892)
Refuse	(2 059 637)	(1 806 579)
Service debtors	(22 945 071)	(7 376 438)
	<b>(89 980 356)</b>	<b>(33 846 990)</b>
<b>Net balance</b>		
Electricity	1 095 230	996 335
Water	2 507 102	2 372 736
Sewerage	1 549 274	20 157 827
Refuse	340 734	30 976
Service debtors	(1 331 560)	14 863 029
	<b>4 160 780</b>	<b>38 420 903</b>
<b>Electricity</b>		
Current (0 -30 days)	1 095 230	77 984
31 - 60 days	-	88 326
61 - 90 days	-	112 313
91 - 120 days	-	101 013
> 365 days	-	616 699
	<b>1 095 230</b>	<b>996 335</b>

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	2 507 102	1 050 118
31 - 60 days	-	757 084
61 - 90 days	-	565 534
	<b>2 507 102</b>	<b>2 372 736</b>
<b>Sewerage</b>		
Current (0 -30 days)	1 549 274	166 821
31 - 60 days	-	158 304
61 - 90 days	-	155 602
91 - 120 days	-	153 100
121 - 365 days	-	908 690
> 365 days	-	18 615 310
	<b>1 549 274</b>	<b>20 157 827</b>
<b>Refuse</b>		
Current (0 -30 days)	340 734	30 976
<b>Other (specify)</b>		
Current (0 -30 days)	(1 331 560)	1 405 833
31 - 60 days	-	176 322
61 - 90 days	-	5 546
91 - 120 days	-	2 285 529
121 - 365 days	-	682 651
> 365 days	-	10 307 148
	<b>(1 331 560)</b>	<b>14 863 029</b>

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	-	16 467
31 - 60 days	-	2 770
61 - 90 days	-	7 846
91 - 120 days	-	379
121 - 365 days	-	36 352
	-	<b>63 814</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	-	2 017 402
31 - 60 days	-	11 019
61 - 90 days	-	969
91 - 120 days	-	2 131
121 - 365 days	-	140 172
	-	<b>2 171 693</b>
<b>National and provincial government</b>		
Current (0 -30 days)	-	120 253
31 - 60 days	-	103 027
61 - 90 days	-	111 185
91 - 120 days	-	2 284 919
121 - 365 days	-	53 100 327
	-	<b>55 719 711</b>
<b>Total</b>		
Current (0 -30 days)	4 160 780	5 277 815
31 - 60 days	-	2 454 323
61 - 90 days	-	2 250 806
91 - 120 days	-	5 612 905
121 - 365 days	-	15 005 623
> 365 days	-	49 797 851
	4 160 780	80 399 323
Less: Allowance for impairment	-	(41 978 420)
	<b>4 160 780</b>	<b>38 420 903</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(89 980 356)	(93 686 353)
31 - 60 days	-	59 839 363
	<b>(89 980 356)</b>	<b>(33 846 990)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(89 980 356)	(93 686 353)
Reversal of allowance	-	59 839 363
	<b>(89 980 356)</b>	<b>(33 846 990)</b>

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

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Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Cash and cash equivalents (continued)</b>		
Short-term deposits	21 570 148	691 588
Bank overdraft	(3 692 747)	(16 122 827)
	<b>17 877 401</b>	<b>(15 431 239)</b>
Current assets	21 570 148	691 588
Current liabilities	(3 692 747)	(16 122 827)
	<b>17 877 401</b>	<b>(15 431 239)</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank Limited - 4054385292	587 374	1 059 615	1 651 603	21 081	1 047 359	1 635 548
Standard Bank - Primary account bank - 302854185	2 422 389	954 381	1 444 403	-	(17 170 605)	(17 191 204)
CALL INVESTMENT DEPOSITS:	-	-	-	-	-	-
ABSA Bank Limited - Call account -9288820487	261 528	246 131	232 404	-	246 131	232 404
First National Bank - Call Deposit - 62247117709	111 970	105 862	3 205	-	105 862	3 205
ABSA Bank Limited - Fixed deposit - 2073969801	32 872	31 135	29 701	-	31 135	29 701
ABSA Bank Limited - Depositor plus - 9297200038	244 913	230 838	-	-	230 838	-
Standard Bank - Money market call account - 548529973 003	76 735	72 414	69 330	-	72 414	69 330
Standard Bank - Money market call account - 548529973 002	5 330	5 208	5 125	-	5 208	5 125
Nedbank - Call deposit - 7881112840	20 836 800	-	-	-	-	-
<b>Total</b>	<b>24 579 911</b>	<b>2 705 584</b>	<b>3 435 771</b>	<b>21 081</b>	<b>(15 431 658)</b>	<b>(15 215 891)</b>

### 8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community	138 439 351	(29 122 036)	109 317 315	134 937 935	(24 332 426)	110 605 509
Computer equipment	2 629 758	(1 888 238)	741 520	2 207 908	(1 400 312)	807 596
Furniture and fixtures	2 392 587	(1 961 822)	430 765	2 274 890	(1 695 341)	579 549
Infrastructure	1 564 159 498	(187 282 799)	1 376 876 699	1 438 002 164	(137 090 808)	1 300 911 356
Land	7 169 290	-	7 169 290	7 169 290	-	7 169 290
Leasehold property	44 506 764	-	44 506 764	-	-	-
Motor vehicles	6 223 007	(2 400 105)	3 822 902	11 252 146	(6 580 273)	4 671 873
Other property, plant and equipment	2 919 223	(1 718 810)	1 200 413	3 842 279	(1 682 412)	2 159 867
Work in progress - Infrastructure	144 801 444	-	144 801 444	192 377 999	-	192 377 999
<b>Total</b>	<b>1 913 240 922</b>	<b>(224 373 810)</b>	<b>1 688 867 112</b>	<b>1 792 064 611</b>	<b>(172 781 572)</b>	<b>1 619 283 039</b>



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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Community	110 605 509	3 501 416	-	-	(4 789 610)	109 317 315
Computer equipment	807 596	439 723	(13 334)	-	(492 465)	741 520
Furniture and fixtures	579 549	155 575	661	-	(305 020)	430 765
Infrastructure	1 300 911 356	-	-	126 157 334	(50 191 991)	1 376 876 699
Land	7 169 290	-	-	-	-	7 169 290
Leasehold property	-	44 506 764	-	-	-	44 506 764
Motor vehicles	4 671 873	-	45 148	-	(894 119)	3 822 902
Other property, plant and equipment	2 159 867	-	(514 669)	-	(444 785)	1 200 413
Work in progress	192 377 999	78 580 777	-	(126 157 332)	-	144 801 444
	<b>1 619 283 039</b>	<b>127 184 255</b>	<b>(482 194)</b>	<b>2</b>	<b>(57 117 990)</b>	<b>1 688 867 112</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Newly found assets	Transfers	Other changes, movements	Depreciation
Community	109 331 976	5 771 465	-	-	-	-	(4 497 93)
Computer equipment	947 790	266 213	(174 789)	-	-	-	(231 61)
Furniture and fixtures	694 825	198 644	(1 473)	-	-	(3 422)	(309 02)
Infrastructure	881 595 821	47 830 047	352 610	391 013 775	-	-	(19 880 89)
Land	7 169 290	-	-	-	-	-	-
Motor vehicles	4 962 860	1 377 642	(406 065)	-	-	-	(1 262 56)
Other property, plant and equipment	872 627	1 155 522	-	-	-	355 056	(223 33)
Work in progress	119 827 892	124 926 418	-	-	(52 376 311)	-	-
	<b>1 125 403 081</b>	<b>181 525 951</b>	<b>(229 717)</b>	<b>391 013 775</b>	<b>(52 376 311)</b>	<b>351 634</b>	<b>(26 405 37)</b>

#### Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	613 000	(138 679)	474 321	613 000	(138 679)	474 321

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### 9. Intangible assets (continued)

#### Reconciliation of intangible assets - 2016

	Opening balance	Total
Computer software, other	474 321	474 321

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	314 007	245 774	(85 460)	474 321

### 10. Unspent conditional grants and receipts

In the current year the municipality does not have unspent conditional grants because all the allocated grants were fully utilized except for the Library Grant.

#### Unspent conditional grants and receipts comprises of:

##### Unspent conditional grants and receipts

Library Grant	1 133 530	-
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See note 20 for reconciliation of grants from National/Provincial Government.

### 11. Long-term liabilities

#### At amortised cost

Development Bank of South Africa- Short term portion	784 454	784 507
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Loan number: 101251/1  
 Starting date: 01/07/2007  
 Redemption date: 30/06/2017  
 Capital and Interest repayment frequency: 6 Months  
 Interest rate: 1.000% (Fixed)

Development Bank of South Africa	1 153 229	1 802 600
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Loan number: 101797/1  
 Starting date: 01/07/2011  
 Redemption date: 30/06/2027  
 Capital and Interest repayment frequency: 6 Months  
 Interest rate: 8.848% (Fixed)

<b>1 937 683</b>	<b>2 587 107</b>
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#### Total other financial liabilities

<b>1 937 683</b>	<b>2 587 107</b>
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#### Non-current liabilities

At amortised cost	1 153 229	1 802 600
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#### Current liabilities

At amortised cost	784 454	784 507
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# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 12. Payables from exchange transactions

Accrual of 13th cheque	1 126 414	1 126 423
Accrued bonus	2 706 114	10 029
Accrued leave pay	2 375 776	2 375 776
Debtors with credit balances	17 108 584	17 108 584
Deposits received	400	400
Other payables - third parties	19 888 312	14 300 606
Unallocated deposits	11 981	11 981
Sundry deposits	668 935	668 935
Trade payables	3 141 305	3 200 566
	<b>47 027 821</b>	<b>38 803 300</b>

### 13. VAT payable

### 14. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for landfill site	1 565 000	1 953 969	3 518 969

#### Reconciliation of provisions - 2015

	Opening Balance	Utilised during the year	Total
Provision for landfill site	1 845 171	(280 171)	1 565 000

#### Provision for environmental rehabilitation

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs. A valuation was performed by independent experts and the related report is available for inspection at the municipal main offices.

### 15. Investment revenue

#### Interest revenue

Bank	2 706 138	1 155 435
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### 16. Other income

Admin fees	14 885	13 550
Cemetery fees	228	202
Grading fees	22 025	3 316
Insurance claims received	461 226	17 322
Other income 9	60 600	73 939
Other water charges	-	226 426
Photocopies	20 738	9 786
Profit on disposal of assets	1 422 204	-
Rental income	1 579	4 561
Skills development claims income	8 008	18 732
Telephone cost reclaimed	236 382	118 931
Tender documents	133 055	246 192
Water connection fees	70 328	92 415
	<b>2 451 258</b>	<b>825 372</b>

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>17. Rental of facilities and equipment</b>		
<b>18. Service charges</b>		
Sale of electricity	5 259 100	4 554 753
Sale of water	22 822 755	13 571 487
Solid waste	976 133	867 640
Sewerage and sanitation charges	1 886 904	1 556 989
	<b>30 944 892</b>	<b>20 550 869</b>
<b>19. Property rates</b>		
<b>Rates received</b>		
Agricultural	24 572 449	18 130 272
Commercial	1 321 171	2 048 771
Residential	7 460 408	10 323 062
Less: Rebates	(22 936 020)	(20 076 067)
	<b>(15 475 612)</b>	<b>(9 753 005)</b>
	<b>10 418 008</b>	<b>10 426 038</b>

Property rates are levied monthly on a fair market value on properties and are payable the 1st working day of each month.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	115 253 000	93 255 000
Finance Management Grant (FMG)	1 675 000	1 600 000
Library Grant	371 470	969 000
Municipal Systems Improvement Grant (MSIG)	930 000	934 000
	<b>118 229 470</b>	<b>96 758 000</b>
<b>Capital grants</b>		
ACIP Sanitation	-	28 642 962
Extended Public Works Programme	2 336 000	1 969 000
Municipal Infrastructure Grant (MIG)	63 599 000	57 058 000
Kumba Iron Ore SLP (Other conditional grants)	9 408 506	7 066 676
Rural Household Infrastructure Grant	14 849 510	5 016 685
Water Operation and Subsidy Grant	22 500 000	10 000 000
Municipal Water Infrastructure Grant (MWIG)	60 000 000	50 000 000
	<b>97 349 510</b>	<b>65 016 685</b>
	<b>290 922 486</b>	<b>256 511 323</b>

### Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

### Extended Public Works Programme

Current-year receipts	2 336 000	1 969 000
Conditions met - transferred to revenue	(2 336 000)	(1 969 000)
	<b>-</b>	<b>-</b>

The grant is used for public works programmes and focuses on job creation through implementation of labour intensive projects.

### Financial Management Grant (FMG)

Current-year receipts	1 675 000	1 600 000
Conditions met - transferred to revenue	(1 675 000)	(1 600 000)
	<b>-</b>	<b>-</b>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG also pays for the cost of the Financial Management Internship Programme (eg. salary costs of the Financial Management Interns).

### Municipal Infrastructure Grant (MIG)

Current-year receipts	63 599 000	57 058 000
Conditions met - transferred to revenue	(63 599 000)	(57 058 000)
	<b>-</b>	<b>-</b>

MIG is a conditional grant that was established to address national priorities regarding municipal infrastructure that may not be realised through unconditional grants such as equitable share. Among other conditions no MIG funds may be spent outside the framework of the municipality's existing Integrated Development Plan and its approved budget.

### Library Grant

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>20. Government grants and subsidies (continued)</b>		
Current-year receipts	1 505 000	969 000
Conditions met - transferred to revenue	(371 470)	(969 000)
	<b>1 133 530</b>	<b>-</b>

The grant is received from the provincial Department of Sport, Arts and Culture to transform urban and rural community library infrastructure, facilities and services through a recapitalised programme at provincial level in support of local government and national initiatives.

### Municipal Water Infrastructure Grant (MWIG)

Current-year receipts	60 000 000	50 000 000
Conditions met - transferred to revenue	(60 000 000)	(50 000 000)
	<b>-</b>	<b>-</b>

The grant is received to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service

### Municipal Systems Improvement Grant (MSIG)

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	<b>-</b>	<b>-</b>

The grant was used to assist in building capacity in the district and local municipalities to ensure that the new development system of local government is fully implemented.

### Rural Household Infrastructure Grant

Current-year receipts	14 849 510	5 016 685
Conditions met - transferred to revenue	(14 849 510)	(5 016 685)
	<b>-</b>	<b>-</b>

To provide specific capital funding for the reduction of rural sanitation backlogs and to target existing households where bulk-dependent services are not viable.

### Water Operation and Subsidy Grant

Current-year receipts	22 500 000	10 000 000
Conditions met - transferred to revenue	(22 500 000)	(10 000 000)
	<b>-</b>	<b>-</b>

The subsidy is utilised to subsidise, refurbish and restore the functionality of water services schemes previously owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the department.

### Kumba Iron Ore SLP (Other conditional grants)

Current-year receipts	9 408 506	7 066 676
Conditions met - transferred to revenue	(9 408 506)	(7 066 676)
	<b>-</b>	<b>-</b>

The purpose of the grant is to ensure that holders of mining or production rights contribute towards the socio economic development of the areas in which they operate.

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 21. Public contributions and donations

Public contributions and donations	-	4 977 620
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The municipality received donations from the mine of road infrastructure.

### 22. Revenue

Government grants & subsidies	290 922 486	256 511 323
Interest received (trading)	7 337 104	4 583 384
Interest received - investment	2 706 138	1 155 435
Other income - (rollup)	2 451 258	825 372
Sundry revenue	366 993	1 708 460
Property rates	10 418 008	10 426 038
Public contributions and donations	-	4 977 620
Service charges	30 944 892	20 550 869
	<b>345 146 879</b>	<b>300 738 501</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received (trading)	7 337 104	4 583 384
Interest received - investment	2 706 138	1 155 435
Other income - (rollup)	2 451 258	825 372
Service charges	30 944 892	20 550 869
	<b>43 439 392</b>	<b>27 115 060</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Taxation revenue

Property rates	10 418 008	10 426 038
Sundry revenue	366 993	1 708 460

##### Transfer revenue

Government grants & subsidies	290 922 486	256 511 323
Public contributions and donations	-	4 977 620
	<b>301 707 487</b>	<b>273 623 441</b>

### 23. Bulk purchases

Electricity	5 992 490	6 491 065
Water	4 103 002	4 612 897
	<b>10 095 492</b>	<b>11 103 962</b>

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.

### 24. Contracted services

Specialist Services	-	465 600
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### 25. Debt impairment

Debt impairment	79 248 917	(59 839 362)
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# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>26. Depreciation and amortisation</b>		
Property, plant and equipment	57 117 989	26 490 835
The depreciation increased in the current year due to newly found assets included in the asset register.		
<b>27. Finance costs</b>		
Current borrowings	201 738	146 325
Other interest paid	3 462 104	56 165
	<b>3 663 842</b>	<b>202 490</b>
<b>28. General expenses</b>		
Advertising	428 292	622 199
Auditors remuneration	3 309 231	3 901 391
Assets disposal loss	153 431	131 726
Cleaning	133 606	61 987
Commission paid	6 682 768	-
Computer expenses	(254 323)	-
Consulting and professional fees	3 031 439	3 114 767
Stores and materials	-	7 444
Entertainment	208 166	264 567
Insurance	611 940	591 065
Departmental expenses	300 035	615 088
Conferences and seminars	54 432	17 490
IT expenses	77 416	333
Electricity consumption	26 950	95 870
Horticulture	18 400	(111 350)
Magazines, books and periodicals	175 199	183 764
Motor vehicle expenses	45 611	3 540 818
Fuel and oil	5 744 585	4 978 014
Indigent subsidies	22 016	21 464
Security (Guarding of municipal property)	2 062 565	963 060
Software expenses	323 964	(173 832)
Subscriptions and membership fees	508 745	502 079
Telephone and fax	3 698 801	3 521 557
Training	310 366	925 934
Travel - local	3 068 459	3 284 535
Departmental expenses	4 320 821	3 392 353
Uniforms	265 430	216 531
Tourism development	-	44 203
Pump operation cost	1 869 500	1 773 243
Indigent subsidies	2 950 380	3 090 914
Small, medium and micro enterprises support	9 100	-
Valuation roll expenses	-	635 058
Ward committee expenses	1 355 799	1 209 277
Electricity consumption	-	31 980
Computer expenses	199 921	168 110
Name branding	99 698	48 395
Internal audit fees	1 753 934	1 037 973
Capacity buildings	238 448	484 588
Chemicals	1 000	12 300
	<b>43 806 125</b>	<b>39 204 895</b>



## Joe Morolong Local Municipality

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>29. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Government grants	60 619 722	18 379 122
Reversal of income held as an agent	(5 213 082)	-
	<b>55 406 640</b>	<b>18 379 122</b>

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Employee related costs

Basic	30 765 207	26 616 557
Bonus	2 011 049	2 020 099
Cell phone allowances	499 800	431 650
Defined contribution plans	4 928 962	4 263 102
Housing benefits and allowances	2 528 927	2 124 249
Leave pay provision charge	-	513 301
Long-service awards	2 207 732	112 455
Medical aid - company contributions	3 177 775	2 824 764
Non pensionable allowances	891 726	503 098
Overtime payments	1 766 348	1 697 864
SDL	489 778	407 916
Transport allowance (bus coupons)	7 159 443	5 678 362
UIF	286 960	253 270
	<b>56 713 707</b>	<b>47 446 687</b>

Key management personnel:

#### Remuneration of municipal manager

Annual Remuneration	604 950	655 006
Car Allowance	360 000	-
Subsistence Allowance	80 400	440 400
Other	119 000	151 397
	<b>1 164 350</b>	<b>1 246 803</b>

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, he was still the active municipal manager on year end.

#### Remuneration of Chief Finance Officer

Annual Remuneration	465 105	472 940
Car Allowance	207 275	228 465
Housing Allowance	154 214	-
Cellphone Allowance	14 400	14 400
Other	12 000	97 501
	<b>852 994</b>	<b>813 306</b>

Mrs. B.D. Motlhapeng was appointed as chief financial officer on 1 June 2012, she was still the active chief financial officer on year end.

#### Remuneration of the corporate services manager

Annual Remuneration	402 817	432 579
Car Allowance	210 000	210 000
Bonuses	-	153 996
Other	204 777	38 086
	<b>817 594</b>	<b>834 661</b>

#### Remuneration of the community services manager

Annual Remuneration	485 104	557 899
Car Allowance	218 488	251 509
Other	119 029	25 151
	<b>822 621</b>	<b>834 559</b>

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 30. Employee related costs (continued)

#### Remuneration of the technical services manager

Annual Remuneration	463 598	518 909
Car Allowance	192 000	192 000
Other	153 996	14 400
Other	-	147 996
	<b>809 594</b>	<b>873 305</b>

#### Remuneration of the local IDP manager

Annual Remuneration	472 413	514 445
Car Allowance	224 000	224 000
Other	136 181	22 400
Other	-	38 086
	<b>832 594</b>	<b>798 931</b>

### 31. Remuneration of councillors

Mayor	622 664	702 295
Speaker	515 537	565 254
Councillors	5 593 224	6 435 820
Councillors' pension contribution	772 335	827 986
	<b>7 503 760</b>	<b>8 531 355</b>

#### In-kind benefits

The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has a full-time secretary and driver at the expense of the municipality.

### 32. Repairs and maintenance

Repairs and maintenance	10 540 698	18 214 760
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# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>33. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2016</b>		
<b>Financial assets</b>		
<b>Financial liabilities</b>		
<b>2015</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	57 955 220	57 955 220
Other receivables from non-exchange transactions	1 245 014	1 245 014
	<b>59 200 234</b>	<b>59 200 234</b>
<b>Financial liabilities</b>		
<b>34. Other revenue</b>		
Other income - (rollup)	2 451 258	825 372
<b>35. Auditors' remuneration</b>		
Fees	3 309 231	3 901 391
<b>36. Cash generated from operations</b>		
Surplus	661 347	199 500 875
<b>Adjustments for:</b>		
Depreciation and amortisation	57 117 989	26 490 835
Debt impairment	79 248 917	(59 839 362)
Movements in retirement benefit assets and liabilities	223 902	434 445
Movements in provisions	1 953 969	(280 171)
Other non-cash items	(5)	12
<b>Changes in working capital:</b>		
Inventories	220 331	163 699
Receivables from non-exchange transactions	8 339 874	(10 264 913)
Consumer debtors	(44 988 794)	35 949 224
Payables from exchange transactions	8 224 530	12 188 649
VAT	(703 394)	(4 112 994)
Unspent conditional grants and receipts	1 133 530	-
	<b>111 432 196</b>	<b>200 230 299</b>

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Investment property	-	36 812 447
• Investments in controlled entities	-	802 142
	<b>-</b>	<b>37 614 589</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	-	37 614 589

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

### 38. Contingencies

Litigation is in the process against the municipality relating to a dispute whereby the resident has lodged a case against the municipality and Eskom for damages arising from injuries sustained caused by the electrical wire which was utilized for the purpose of distributing and transmitting electrical current in the municipality's area of jurisdiction and is seeking damages of R 12 950 000. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as distribution of electricity is not municipality competence, and the case should be resolved.

The municipality has been trading in sales of prepaid electricity since 2012. In terms of National Energy of South Africa (NERSA) Act no one may be involved in the trading of electricity without the license issued by the Regulator. The municipality has however applied and the outcome is still pending. The municipality may face possible penalties should NERSA take action against the municipality for non-compliance. As at year-end no action was taken by the Regulator.

As at year-end, the municipality was not involved in any other litigation claims except listed above. Therefore no other contingent liabilities or assets are disclosed.

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 39. Related parties

#### Relationships

#### Members of key management and their close family members

TM Bloom	Refer to note 30
BD Motlhaping	Refer to note 30
TJ Gopetse	Refer to note 30
KV Phiri	Refer to note 30
KJ Mabudi	Refer to note 30
TS Tlaole	Refer to note 30

#### Ward councillors and their close family members

Cllr. N Mokweni  
 Cllr. O Kaotsane  
 Cllr. S Ortel  
 Cllr. K Shuping  
 Cllr. S Matshidiso  
 Cllr. G Sephekelo  
 Cllr. K Modise  
 Cllr. E Molawa  
 Cllr. G Moriri  
 Cllr. D Kubang  
 Cllr. P Segaetsho  
 Cllr. S Moagi  
 Cllr. H Kgopodithata  
 Cllr. D Josop  
 Cllr. T Teteme

#### Party representatives

Cllr. J Freedman  
 Cllr. MC Tihelo  
 Cllr. TP Tshipo (Deceased)  
 Cllr. K Ditshetelo  
 Cllr. S Segano  
 Cllr. B Matlhomantsho  
 Cllr. V Jordan

#### EXCO Members

Cllr. BM Mbolekwa  
 Cllr. N Selebalo  
 Cllr. K Mosiapoe  
 Cllr. EO Leshope

Other than the related disclosed above, the municipality does not have any other related parties. For remuneration of councillors refer to note 31. No transactions occurred with related parties during the reporting period other than those at arms length as consumers of municipal services.

### 40. Accounting officers emoluments

Heading	Emoluments	Total
Executive	-	-
2015	-	-
Mr. TM Bloom	1 246 803	1 246 803
Executive	-	-
2014	-	-
Mr. TM Bloom	1 114 151	1 114 151
	<b>2 360 954</b>	<b>2 360 954</b>

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 41. Prior period errors

Property, Plant and Equipment has been restated to reflect the correct figures as per the fixed assets register. The municipality embarked on a process of unbundling of its infrastructure assets. It was during this process that property, plant and equipment increased due to new assets that were identified and included in the asset register.

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Increase in property, plant and equipment	- 391 013 774
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### 42. Risk management

#### Interest risk

As the municipality has no significant interest - bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rate.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to a fair interest rate risk. Municipality is to maintain all of its borrowings in a fixed rate instruments.

#### Capital risk management

The capital structure of the municipality consist of the debt, cash and cash equivalent and equity as disclosed in the Statement of Financial Position.

There are no externally imposed capital requirements

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality does not perform an evaluation of the credit risk relating to its customers and therefore risk limits are not set.

### 43. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1 624 279 422 and that the municipality's total assets exceed its liabilities by R 1 624 279 422. The use of the going concern principle is appropriate.

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 44. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 45. Unauthorised expenditure

Unauthorised expenditure	285 677 693	243 424 305
Current year	100 223 960	42 253 388
<b>Unauthorised expenditure under investigation</b>	<b>385 901 653</b>	<b>285 677 693</b>

The above unauthorised expenditure is within the votes and is as a result of overspending on various votes on the budget, therefore the total approved expenditure is overspend. This is unauthorised expenditure was tabled to council in accordance with section 23 (6) of the Budget and Reporting Regulations.

Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

### 46. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1 064 828	953 502
Current year	14 795	111 326
<b>Fruitless and wasteful expenditure under investigation</b>	<b>1 079 623</b>	<b>1 064 828</b>

Fruitless and wasteful expenditure was due to the late payment of some of the municipalities' accounts. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

### 47. Irregular expenditure

Opening balance	81 260 920	79 433 930
Add: Irregular Expenditure - current year	7 459 822	1 826 990
<b>Irregular expenditure under investigation</b>	<b>88 720 742</b>	<b>81 260 920</b>

The Irregular expenditure listed above arose as a result of various non-compliances to the Supply Chain Regulation as well as non-compliance to the Supply Chain Policy of the municipality. Further explanations and descriptions are listed in the Deviation registers. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

### 48. Additional disclosure in terms of Municipal Finance Management Act

#### Skills development levy

Amount paid	489 778	407 916
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#### Industrial council levy

Amount paid	16 950	14 638
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# Joe Morolong Local Municipality

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Medical aid contributions

Amount paid	3 177 775	2 824 765
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#### Distribution losses

##### Non-Technical losses:

Non-Technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity cables, tampering with meters and connections which form part of illegal consumption, faulty meters, vandalised stand-pipes etc.

##### Technical losses:

Technical losses are the result electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

Technical losses of water are the result of losses between bulk water purchases less the water distributed to consumers. Alternatively, this can be measured as total water stored in tanks less water distributed to consumers.

##### Water:

In the current year there were no technical and financial losses for water distribution. However, there were no-technical losses of water which took place which are not quantifiable due to the nature of the losses.

##### Electricity:

In the current year the energy losses were. These losses are the result of theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable. Due to the lack of kva meters, the municipality is incurring a loss as Eskom is billing kva while the municipality is not doing so yet.

kWh - units	2 847 704kw	(2015: 742 696 kw)
Rand value	R1 186 602.28	(2015: R777 044)
Percentage	52%	(2015: 27%)

#### Audit fees

Current year subscription / fee	2 830 523	3 901 391
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#### PAYE and UIF

Current year subscription / fee	7 429 511	6 949 128
Amount paid - current year	(7 429 511)	(6 949 128)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	1 557 347	7 087 866
Amount paid - current year	(1 557 347)	(7 087 866)
	-	-

# Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT receivable	4 290 274	3 586 880
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

Only one Councillor had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor K. Shuping	255	1 022	1 277

Only Cllr K Shuping of Joe Morolong Local Municipality's Council had consumer accounts in arrears as at year end.

### 49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the audited annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 50. Employee benefit obligations

#### Long service award provision

The long service awards are provided to employees who achieve certain pre-determined milestone of service within the municipality. The municipality's obligation under these plans is valued by the independent qualified actuaries periodically and the corresponding liability is raised. Payment are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the statement of financial performance as employee benefits upon valuation. Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions is charged or credited to the Statement of financial performance in the period that it occurs.

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
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### 50. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Opening accrued liability	(1 165 811)	(692 967)
Current service cost	(188 892)	(140 812)
Interest cost	(89 046)	(56 165)
Expected benefit vestings	118 907	14 346
Actuarial gain/(loss)	(64 871)	(290 213)
	<b>(1 389 713)</b>	<b>(1 165 811)</b>
Non-current liabilities	(1 273 325)	(1 046 904)
Current liabilities	(116 388)	(118 907)
	<b>(1 389 713)</b>	<b>(1 165 811)</b>

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.66% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.13%. These rates do not reflect any adjustment for taxation.

### 51. Budget differences

#### Material differences between budget and actual amounts

Material differences are those over 15% and/or R 2m. The main reasons for the material differences are:

1. Service charges - Actual billing was higher than budgeted because due to debtor information verification and improvement in controls.
2. Interest trading - A large debtors book resulted in high interest being charged to consumer accounts.
3. Other income - Income received from rental resulted... in other income being significantly higher than budgeted for.
4. Property rates - Higher revenue was billed due to the implementation of the supplementary valuation roll.
5. Government grants and receipts, Public contributions and transfer payments - These are similar in nature and the difference is only due to re-classifications of amounts recognised in revenue. The net difference is not material.
6. Depreciation - There is an increase in depreciation due to a number of large projects being completed and now increasing the annual depreciation charge while there were very little asset disposals.
7. Repairs and maintenance - The difference between actual expense and budget is that
8. Grants and subsidies paid -

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

# Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended 30 June 2016

## Notes to the Audited Annual Financial Statements

Figures in Rand	2016	2015
<b>52. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	18 336 439	-
- in second to fifth year inclusive	26 472 423	-
	44 808 862	-
less: future finance charges	(7 138 911)	-
<b>Present value of minimum lease payments</b>	<b>37 669 951</b>	<b>-</b>
<b>Present value of minimum lease payments due</b>		
- within one year	13 866 195	-
- in second to fifth year inclusive	23 803 756	-
	<b>37 669 951</b>	<b>-</b>
Non-current liabilities	13 866 194	-
Current liabilities	23 803 757	-
	<b>37 669 951</b>	<b>-</b>

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 24% (2015: -%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

### 53. Retention fees

	2016	2015
Amount payable to service providers	12 906 171	1 348 193

# Joe Morolong Local Municipality

## Appendix A

June 2016

### Schedule of external loans as at 30 June 2015

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
<b>Development Bank of South Africa</b>							
DBSA @ 8.848%	61 000 368 30/06/2027	2 309 959	-	-	2 309 959	-	-
DBSA @ 1 %	61 000 239 01/07/2017	627 492	-	-	627 492	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>2 937 451</b>	-	-	<b>2 937 451</b>	-	-
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
Lease liability		-	-	-	-	-	-
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
<b>Total external loans</b>							
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
Development Bank of South Africa		2 937 451	-	-	2 937 451	-	-
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
Lease liability		-	-	-	-	-	-

**Joe Morolong Local Municipality**

**Appendix A**

June 2016

**Schedule of external loans as at 30 June 2015**

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>2 937 451</b>	-	-	<b>2 937 451</b>	-	-

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.